

Innovation

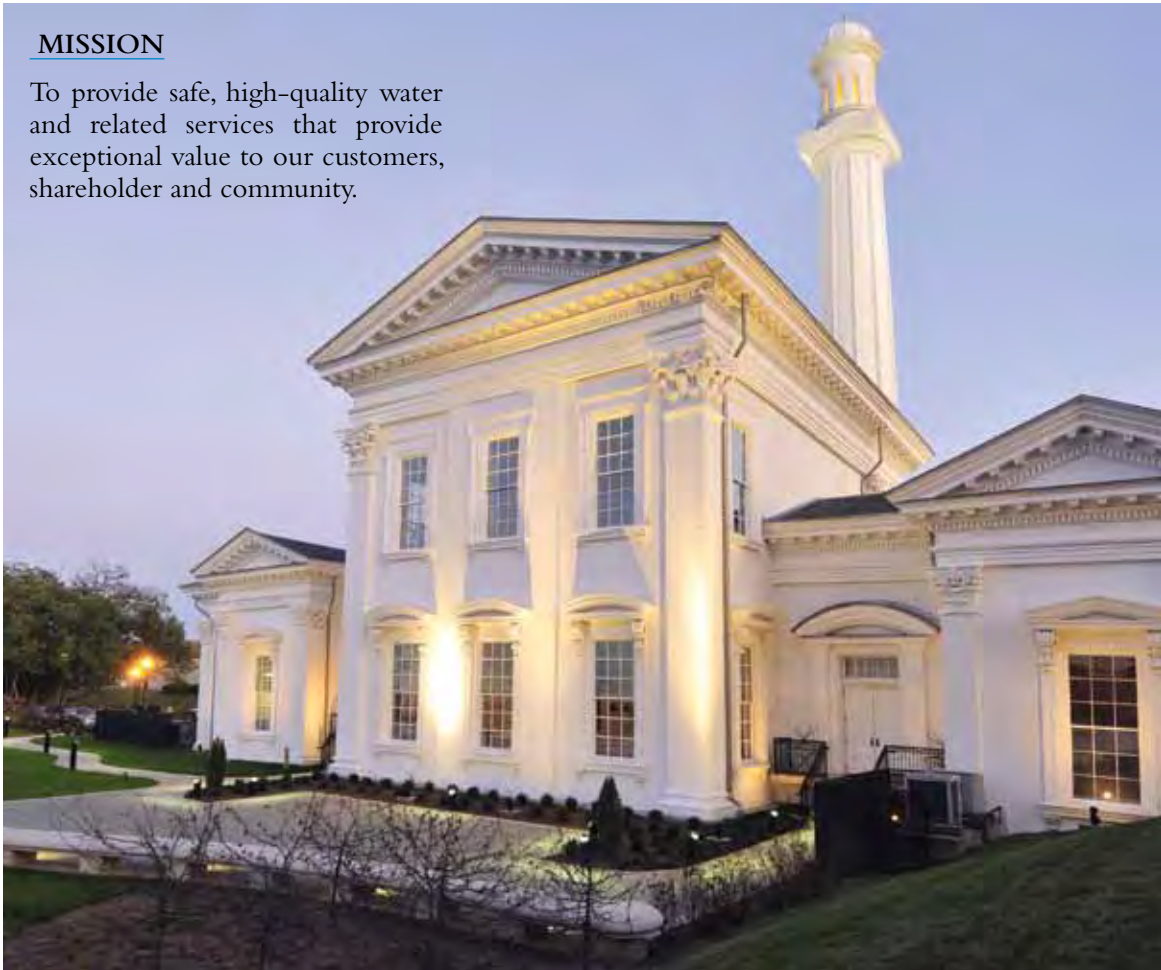
LOUISVILLE
WATER
COMPANY
2011 ANNUAL
REPORT



Louisville Water provides drinking water to 850,000 people in Louisville Metro and parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. In 2011, Louisville Water delivered an average of 120 million gallons of water every day through 4,115 miles of water main. The customer base also includes wholesale contracts to Lebanon Junction, Mount Washington, North Nelson Water District, North Shelby Water Company, Taylorsville and West Shelby Water District. Louisville Water operates two treatment plants; the Crescent Hill Filtration Plant has a capacity of 180 million gallons per day and the B.E. Payne Water Treatment Plant has a capacity of 60 million gallons per day. Louisville Water draws water directly from the Ohio River and in the aquifer through a riverbank filtration system.

MISSION

To provide safe, high-quality water and related services that provide exceptional value to our customers, shareholder and community.



VISION

Louisville Water will remain the water supplier of choice throughout the region by:

- Providing the best-of-class quality, customer service and value
- Expanding the geographic areas we serve
- Creating new lines of business building on existing competencies

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President's Message

I'm pleased to provide you with Louisville Water Company's 2011 Annual Report. Innovation has defined our company since 1860 and we continued that spirit in 2011. Our scientists and engineers developed new ideas that not only improve the quality of our product but lay the foundation for others to follow.



We experienced extraordinary success in 2011 in the midst of tremendous challenges that included record rainfall, historic water main breaks and a struggling economy. Louisville Water provided a \$32 million value to our owner, exceeded the nation's strict water quality standards and expanded the scope of our services in neighboring communities.

WEATHER AND A STRUGGLING ECONOMY

Louisville Water continues to operate in the midst of a struggling economy. While the number of customers grew by 2,000 accounts, water consumption lagged at 35.8 billion gallons, the lowest since 1992. During 2011, we installed just 3.6 miles of new water main compared to 48 miles in 2006.

Of course, our sales are directly tied to the weather and Louisville set a yearly rainfall record in 2011 of 68.02 inches. The National Weather Service noted 133 days of measurable precipitation. The spring season was especially troublesome in April when the Ohio River rose seven feet above flood stage. The rainy season continued into the late summer and fall when we typically see higher sales with irrigation. The average daily pumping for 2011 was 120.6 million gallons, 5% below the five-year average daily pumping of 126.9 million gallons.

Throughout the year, we implemented a focused approach to reduce the capital and operations/maintenance budgets and to evaluate open positions. While we ended the year \$6 million under budget in operating revenue, we met our obligations to our owner with a dividend of \$18 million.

STEWARDSHIP AND RECOGNITION

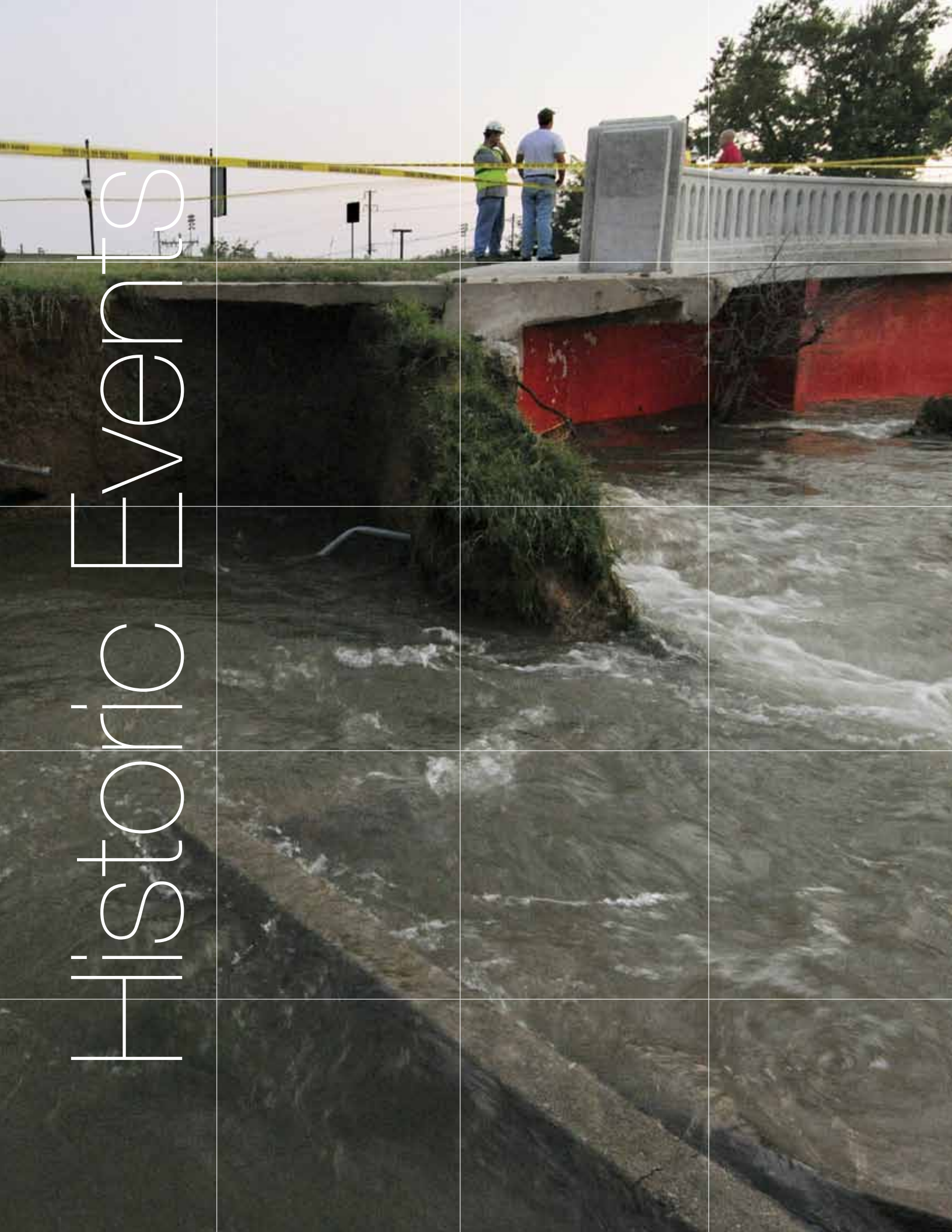
Our employees continue to give back to the community with nearly 6,000 service hours. Republic Bank's "We Care" award highlighted our work in improving the quality of life in our community. Customer service is at the core of our operations and I was especially pleased that the Better Business Bureau noted our excellence in ethical business practices with a regional "Torch Award." Our innovation in delivering water with the Riverbank Filtration project earned international recognition when the American Society of Civil engineers honored Louisville Water with the "Outstanding Civil Engineering Achievement" award.

As you read through the 2011 Annual Report, you'll see numerous examples of how our innovation improves the product we deliver and the communities we serve. Louisville Water is a lifeline to this region providing a safe and high-quality supply of drinking water every day.

A handwritten signature in dark ink that reads "Greg C. Heitzman". The signature is fluid and cursive.

Greg C. Heitzman, President/CEO, Louisville Water Company

Historic Events



Historic Events

Two historic breaks on a major transmission main highlighted the critical importance of water mains that transport drinking water. The breaks occurred exactly one month apart in July and August on the same 48-inch cast iron transmission main.

JULY 11 BREAK

The first break occurred Monday, July 11 near the intersection of Eastern Parkway and Arthur Street on the University of Louisville campus. The break occurred directly beneath a portion of the foundation for the Eastern Parkway overpass, and in a matter of minutes, millions of gallons of water spilled onto the streets. Louisville Water crews immediately mobilized along with support from local firefighters, police, the Mayor's office, Louisville Gas & Electric, the Metropolitan Sewer District and others. Due to the flooded conditions, it was difficult to find all of the necessary valves to stop the water flow. We achieved complete shut-off and fully restored water service the following morning. Approximately 70 million gallons of water had been released in the 14 hours after the break.

This cast iron water main was installed in 1930 and was cleaned and cement-lined in 1989. The main is a major transmission line which supplies distribution mains throughout the city and is a key artery for moving water between the Crescent Hill Filtration Plant and the Cardinal Hill Reservoir.

CUSTOMER IMPACT

Because of the redundancy of our system, only a small number of customers were without water for a short time. But the impact on local businesses was significant. Throughout the hours after the break, Louisville Water worked with the Louisville Fire Department to provide emergency pumping of cooling water to maintain a center that provides phone service throughout the service area. The University campus was closed on Tuesday, July 12 as were several restaurants and downtown businesses.



*Jim Brammell,
Vice President, Chief
Engineer*



Approximately 70 million gallons of water poured from the broken main



Site of the main break was under an overpass on Eastern Parkway



Engineer Keith Coombs inspects the 48-inch main on the UofL campus

The break was one of the largest in our company's 151-year history and received extensive local and national news coverage. Fortunately, no one was injured. There was substantial damage near the break including a University soccer field and 26 cars that were damaged or destroyed.

The sudden loss of pressure required a Boil Water Advisory for 25,000 customers that was not entirely lifted until July 14. This event occurred during one of the hottest days of the summer and although customers had water, boiling it was an inconvenience. The day after the break, we staged a water distribution at Papa John's Cardinal Stadium. Kroger donated two semi-trailer loads of bottled water and Equipment Depot loaned a forklift and operator to move the pallets. Customers lined up to receive over 24,000 bottles of water.

REPAIRS

We began repairs on July 14 with contractor MAC Construction & Excavating, Inc. performing the work. Demolition included the removal of the conflicting bridge foundation that sat directly on top of the damaged water main. The project was closely coordinated with the Kentucky Transportation Cabinet and University officials. Since Eastern Parkway is a historic Olmsted Parkway, demolition of the foundation over the main required State Historic Preservation Office approval. The demolition was completed by July 16 and we began to replace 40 feet of the main. We completed installing the pipe on July 29 and on August 2 the disinfection process had begun.

AUGUST 11 BREAK

Exactly one month from the first break, a second break occurred on August 11. The location of the break near Eastern Parkway and Crittenden Drive was just a quarter of a mile from the July 11 event. The force collapsed part of Eastern Parkway and ruptured a natural gas line. Louisville Water crews



Louisville Water staged a water distribution the day after the break



Crews distributed over 24,000 bottles of water



Site of the second break on the 48-inch main

were able to isolate the main within two hours since key valves were accessible. The gas main was isolated in approximately four hours.

The customer impact in this instance was not as profound. Approximately 400 customers were under a Boil Water Advisory for nearly two days and 12 customers were temporarily without water due to an eight-inch water main that was also broken by the 48-inch main break.

REPAIRS

There were some unexpected moments on the morning after the break when a large oak tree located on the edge of the 60-foot wide pit fell. No one was injured. Louisville Metro Parks' crews cut up and removed the large tree.

As Southern Pipeline Construction Inc. mobilized for repairs, initial work included stabilizing the site to protect the foundation of a home on Eastern Parkway. We removed approximately 40-feet of damaged main by August 16 and began installing new pipe. The repaired main was refilled and disinfected by August 21. We completed our work at this site by September 5 which included repairing a joint leak that was discovered just east of the break site.

This section of the 48-inch main was installed in 1923 and had been cleaned and cement lined in 1989. While we are able to assess the condition of much of the water main in our system, the technology for cast iron main is not as developed. Louisville Water engineers are reviewing available technology and are looking to incorporate electronic leak detection for this type of main in the future.



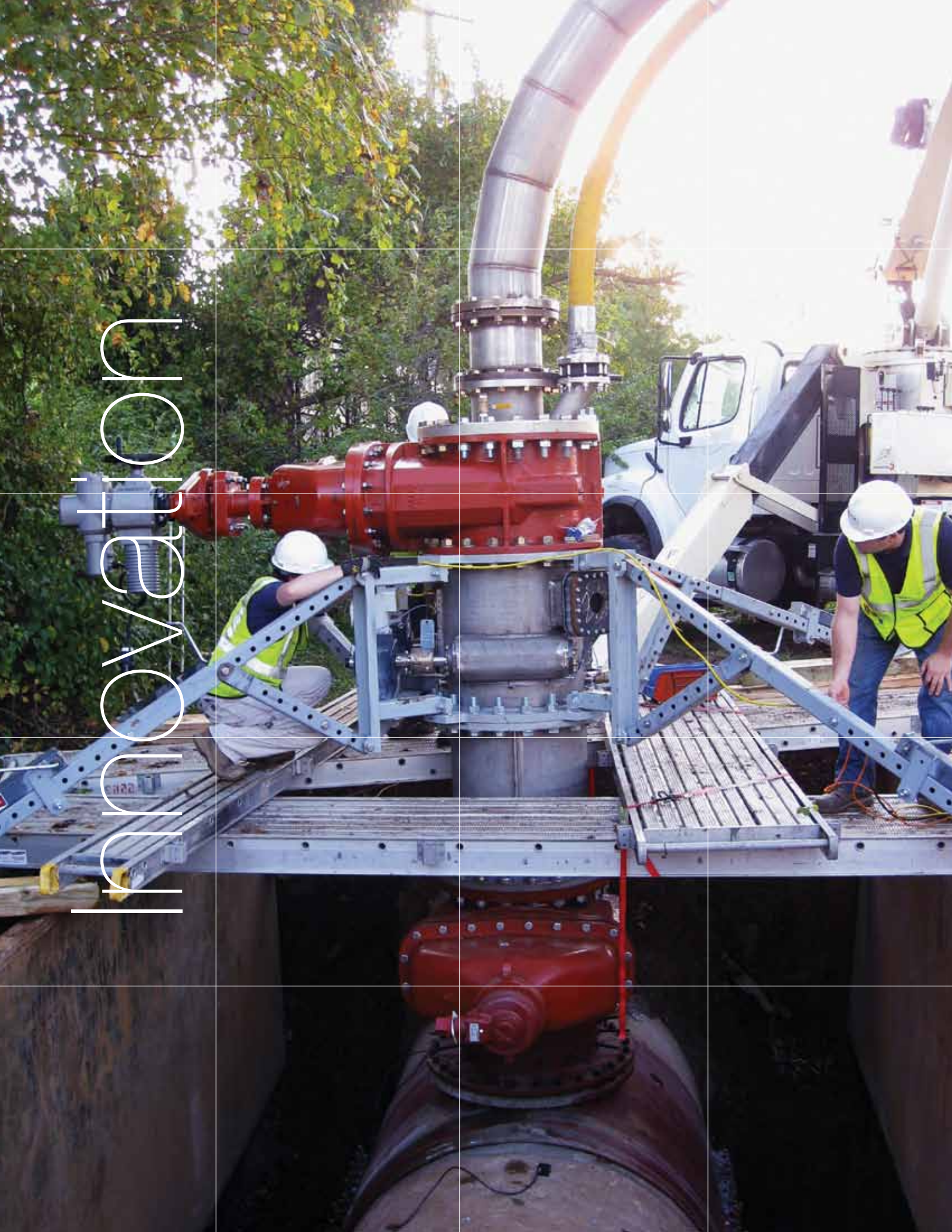
A large tree fell into the pit of the main break



Crews install a new section of 48-inch water main along Eastern Parkway



The restored site of the August 11 main break



Innovation

Innovative Inspection

A free-swimming electromagnetic device provided our first opportunity to closely examine a large diameter transmission main while it was filled with water and in service. This innovative inspection is part of Louisville Water's continuing effort to assess transmission mains—pipes that are larger than 20-inches in diameter.

The effort in 2011 focused on pre-stressed concrete cylinder pipe (PCCP) which accounts for over 50% of the 200 miles of transmission main in our distribution system.

The technology, called "PipeDiver," allowed us to inspect a critical supply line, a 60-inch PCCP in northeastern Jefferson County. PipeDiver is neutrally buoyant and uses the flow of water to push it through the main. As the device travels, it produces an electromagnetic field that is amplified by the wires around the pipe. A receiver records the signal and data analysis identifies sections of distressed pipe.



Louisville Water used PipeDiver to assess eight miles of the main and the analysis quickly identified sections that needed repairs. With intense coordination and planning, we made the repairs without interrupting service and mitigated a potential failure risk.

The technology to assess large diameter PCCP was just recently developed and until this opportunity, all inspections of a large transmission main required the main to be empty and out of service. As the technology advances, Louisville Water will use these innovative approaches to carefully assess the remaining 100 miles of transmission main that include cast and ductile iron, steel and reinforced concrete.

The Transmission Inspection Program complements an effort we began in the 1980s that focuses on distribution water mains. The Main Replacement and Rehabilitation Program is an aggressive approach to reduce the number of main breaks and improve service, water quality and fire flow. Since 1992, we've invested over \$145 million to rehabilitate or replace almost 500 miles of pipe. This program is ongoing with \$5 million allocated in 2011 to replace eight miles of distribution main.



The tube to retrieve PipeDiver from the water main is assembled offsite.



The launch tube is placed on top of the 60-inch main.



After traveling eight miles through a pressurized water main, PipeDiver is removed.

Large Photo: Crews prepare to inspect one of Louisville Water's largest transmission mains using a new tool called "PipeDiver"

Renovation



Renovation

The last projects necessary to complete the rehabilitation and upgrade of the Crescent Hill Filtration Plant were under contract and construction was underway during 2011. Upon completion, the 102 year-old plant will have received a complete facelift. The improvements allow us to continue exceeding the strict drinking-water standards established by the Environmental Protection Agency.

The largest project is renovating 15 filters in the east gallery and installing a robust backwash system which uses a water and air scour system to clean the more efficient filter media. Integral to the backwash system is a two-million gallon elevated tank that will closely resemble the tank that was part of the plant's original operations in 1909. This \$36.4 million project will be completed in 2012 and the original tank removed.

Renovation of the six-basin softening complex continued through 2011. This \$24.2 million project will replace mechanical equipment, lighting, handrails and repair concrete. The project also provides secondary coagulation which is important to meet future water quality regulations.

The former chlorine containment building is being renovated as part of the coagulant feed and chemical upgrade storage project. Since installing on-site chlorine generation in 2010, we no longer need space for chlorine rail storage. This \$5.2 million project was nearly 50% complete at year's end. Work to update the north coagulation basin complex begins in early 2012 with a budget of \$8.5 million.

When Louisville Water completes these projects in 2013, we will have invested nearly \$90 million to re-build our original treatment facility. The end result will provide additional treatment barriers and once again demonstrate our long history of innovation.



Alex McClanahan adjusts the chlorine feed



Refurbished softening basins



New elevated tank will be finished in 2012



Pam Booher collects a water quality sample

Large Photo: The Crescent Hill water tank, in the background, is being replaced with a new one (foreground) that closely resembles the original structure.

Riverbank Filtration



Best in the World

Louisville Water's solution to provide customers with a cleaner source of water was recognized as the "best in the world" for engineering skills.

The American Society of Civil Engineers honored Louisville Water with its "2011 Outstanding Civil Engineering Achievement Award" for the Riverbank Filtration project. Established in 1960, the award honors projects that best illustrate engineering feats that contribute to society and civil engineering progress. The international recognition is a great honor for Louisville Water and our industry and places the company in an elite class of engineering projects that include the restoration of the Statue of Liberty and the Golden Gate Bridge.

During 2011, the B.E. Payne Plant transitioned to relying solely on Riverbank Filtration to provide the source water, drawing an average of 31 million gallons a day from a tunnel and well system deep in the aquifer. The ground water, which primarily comes from the Ohio River, is naturally filtered in the aquifer and requires less conventional treatment. Collector wells capture the water from deep underground and into a tunnel. Then, pumps bring the water from the tunnel to the treatment plant. Louisville Water is the first in the world to combine a tunnel with collector well technology as a source for drinking water.

The first year of operations for the tunnel and well system was a success. The excellent and consistent water quality has reduced and eliminated some of the chemicals required for treatment. Plus, Riverbank Filtration has eliminated many variables with the surface water of the Ohio River such as temperature swings and taste and odor issues.

Riverbank Filtration allowed Louisville Water to accomplish advanced treatment with a "green" solution. We're currently evaluating advanced treatment options at the Crescent Hill Filtration Plant and will make a decision in 2012.



The Riverbank Filtration project is at the B.E. Payne Treatment Plant.



Electric pumps pull the water from the tunnel



Representatives of Louisville Water, Jacobs Engineering and Reynolds accept the Outstanding Civil Engineering Achievement Award

Large Photo: Louisville Water's Kay Ball, Jim Brammell and Greg Heitzman stand inside the completed Riverbank Filtration tunnel with Steve Holterman of Jacobs Engineering.

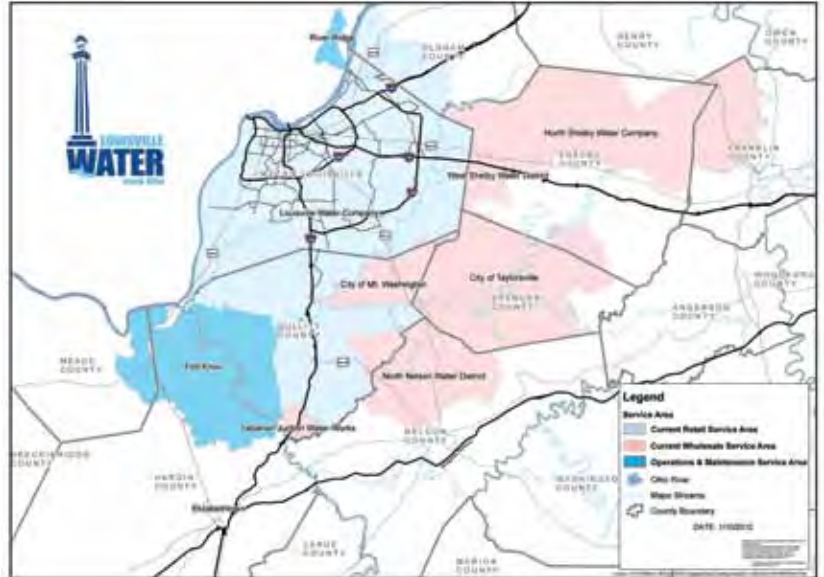
New Opportunities

Louisville Water is a partner in initiatives that provide water supply solutions for neighboring communities and lay the foundation for economic growth.

SOUTHERN INDIANA

In March, the Indiana Department of Natural Resources selected River Ridge Development Authority (RRDA) as operator of the Charlestown State Park/ River Ridge Commerce Center drinking water system. Louisville Water is a partner with RRDA. We are operating the water treatment plant and overseeing water quality compliance.

River Ridge Commerce Center is a 6,000 acre business park located along the Ohio River in Clark County, Indiana at the site of the former Indiana Army Ammunition



Louisville Water's Regional Partners

Plant. The system includes a treatment plant, pumping and storage facilities and 12 miles of water main.

FORT KNOX WATER SYSTEM

An announcement from the Department of Defense in September marked the success of a three-year effort with Hardin County Water District 1 (HCWD1). The Defense Logistics Agency /Energy awarded ownership of the Fort Knox water system to HCWD1 with Louisville Water as a partner. HCWD1 will operate and maintain the distribution systems; Louisville Water will operate two water treatment plants on the Fort Knox post and receive a monthly management fee.

The agreement also calls for closing one of the treatment plants within five years due to its condition. We will install a transmission main from our system that will allow HCWD1 to purchase water for the Fort Knox operations and other parts of its service area.

BULLITT COUNTY

During 2011, Louisville Water completed four miles of a 16-inch transmission main along Highway 245 in Bullitt County, to provide a second supply of water to the North Nelson Water District and create capacity for future growth. This work also provided the opportunity to create a community walking trail. Through easement negotiations with Bernheim Forest and the Kentucky Transportation Cabinet, we secured the necessary land and helped construct the path that will open in 2012.

Progress

Customers have improved water pressure and fire flow with the completion of several projects in 2011. Engineers completed the first phase of work in the new 690 elevated pressure zone which extends along the Interstate 65 corridor from south central Jefferson County to Shepherdsville. Crews installed 7.6 miles of water main and completed a booster pumping station. The second phase, currently under construction, includes a new water storage tank in Shepherdsville.

The 900 pressure zone includes customers in eastern Jefferson County and wholesale customers to the east. Crews completed an elevated storage tank at the Shelby County line, installed five miles of 36-inch transmission main along Interstate 64 and constructed a booster pumping station. Our customers have seen an immediate improvement in water pressure. The work also positions Louisville Water to provide an additional water supply to the east.

BULLITT COUNTY EXTENSION PROGRAM

Louisville Water officially ended the Bullitt County Extension Program on December 31, 2011, marking the success of a 10-year effort to improve water service in the former Kentucky Turnpike Districts No. 1 and 2 in Bullitt County.

When Louisville Water merged with these districts in 2000, the agreement outlined a number of initiatives. During the past 10 years, we've installed over 175 miles of new transmission and water mains, installed 609 fire hydrants and initiated a program to provide over 1,800 homes and businesses access to Louisville Water. The investment exceeds \$56 million.

The Bullitt County Advisory Board helped oversee the 10-year-effort. Now that the extension program has concluded, this board will be reorganized and continue to provide input on water-related matters for Bullitt County customers. We'll also continue to work with Bullitt County Fiscal Court to pursue grant funding for additional improvements.

Several years after the merger of Shepherdsville Water with Louisville Water, we have equalized customer water rates. The Shepherdsville Advisory Board will be dissolved; this community will be represented on the new Bullitt County Advisory Board.



New elevated tank provides storage and fire protection in Bullitt County



A new water main is installed in Bullitt County



Shanaka Ewing examines engineering plans

Customer Focus



Service & Reliability

Service is at the core of our operations. Monthly surveys continue to show the majority of Louisville Water customers are extremely satisfied with the service we provide.

IMPROVING CUSTOMER SERVICE

The Customer Assistance Program, which helps those who have trouble paying their water bill, provided funds to 704 families. Launched in April 2010, this program provides funding to three community organizations that screen and qualify applicants and then transmit pledges. We fund this program with 10% of the revenues, \$52,000, from our water-line protection program. Home Serve USA, the company that offers the water-line protection, contributed \$12,000 in 2011.

Extensive research culminated in the approval of a \$15.7 million capital project to replace an aging customer information and work management system. This multi-year program incorporates Oracle-based software for our Customer Care and Billing, Mobile Work Force Management and Work Asset Management functions. The project's first phase will be complete in 2014.

FOCUS ON SAFETY

A heightened focus on safety continues to achieve great results. We met overall OSHA recordable injury and preventable motor vehicle accident safety goals. Louisville Water managers now perform weekly safety meetings with field crews and routine safety audits. The Kentucky/Tennessee section of the American Water Works selected Louisville Water as the 2011 recipient of the Class III Safety Award.

RELIABILITY

Maintaining nearly 24,000 public fire hydrants is a priority for our crews. In 2011, 99.9% of the hydrants were available at any time. With over 4,100 miles of water main, breaks occur nearly every day. We saw a 25% drop in the number of main breaks in 2011, resulting in 610 breaks for the year. The mild December weather was a large factor in the decrease.



*Dave Vogel
Vice President,
Customer Service*



Jennifer Elhafyani answers questions in the Customer Care Center



*Chad Harper and Jerry Palin
repair a fire hydrant*



*Nik Wohleb and George Reed construct a
large-meter vault*

tap water from Louisville



Louisville pure tap®

In 1996, Louisville Water was the first—and still possibly the only—water utility to brand its public water supply. In 2011, we celebrated the 15th anniversary of the “Louisville pure tap®” campaign, a grass-roots effort to promote the quality, reliability and value of Louisville’s drinking water.



On the 15th anniversary, the logo has a fresh look and an elevated message on the value Louisville pure tap® provides. As a “green solution,” Louisville Water offers a reusable BPA-free bottle plus pitchers, coolers and compostable cups. The company’s engineers have even developed a portable “fill station” that provides an ongoing supply of Louisville pure tap® at outdoor events.

The Louisville pure tap® program connects the community. In 2011, over 800 organizations—including schools, churches, businesses, not-for-profits and festivals utilized the campaign.

The education aspect of the program has evolved too. In partnership with Jefferson County Public Schools, Louisville Water is helping implement a new federal nutrition law that mandates tap water is available for free during lunch. Signage and posters in over 150 lunchrooms identify Louisville pure tap® fill stations. This effort will expand in 2012 at facilities across our service area as an opportunity to highlight the quality and value of our drinking water.

The new arena in Louisville also includes signage and identifiers at each water fountain. In November, a partnership with the Louisville Sports Commission launched the “Louisville pure tap® 5k” and Half-Marathon. These signature events promote the importance of Louisville pure tap® to a healthy lifestyle.



Field Elementary students proudly hold their Louisville pure tap® bottles



Start of the Louisville pure tap® 5k



Louisville pure tap® TO GO provides an ongoing supply of chilled water, straight from the water main.



Water fountains at the city's new arena endorse Louisville pure tap®

Quality of life



Quality Water . . . Quality of Life

Since the quality of our product connects the community, it's important for Louisville Water to be engaged as well.

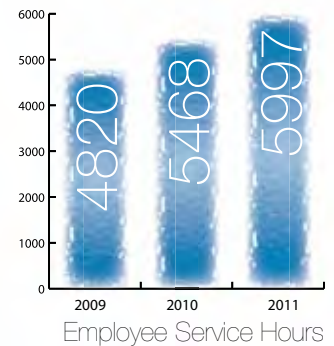
In 2011, employees volunteered nearly 6,000 hours to 120 organizations throughout the community. We continued a focus on stewardship, initiated in 2009, to engage all managers and senior leadership in entities that complement our mission. Since then, the number of volunteer hours has steadily increased.

A Combined Giving Campaign benefiting three organizations: Metro United Way, Fund for the Arts and Water For People set a new record in 2011 with employee contributions exceeding \$180,000.

Louisville Water was one of seven area businesses honored for community engagement. Republic Bank's "We Care" award highlighted our philanthropic endeavors that are tied to public health, science and innovation.

Over 240 children have a new smile, thanks to Smile Kentucky!, our dental health partnership with UofL School of Dentistry, Louisville Dental Society and 20 other community organizations. The program visited schools in Jefferson, Bullitt, Marion, Nelson, Shelby, Spencer and Washington Counties. Louisville Water coordinates the education aspect of Smile Kentucky! that reaches over 17,000 children annually.

We concluded an exhibit on our history and the value of water at the Frazier History Museum. Nearly 20,000 visitors experienced "Water Works," an interactive exhibit that highlighted the need for a safe drinking water supply in our community and around the world. A special event on World Water Day showcased our discoveries in filtration and the work by EDGE Outreach to deliver safe drinking water in other parts of the world.



Mike Davis helps a student tap a water main at Kentucky Construction Career Day



These girls wait for a dental screening with Smile Kentucky!



Greg Heitzman, Amber Halloran, Carl Blanton and Ed Chestnut accept the "We Care" award from Republic Bank president Steve Trager.



Mark Hogg with EDGE Outreach takes part in World Water Day

Large Photo: Channa Newman demonstrates proper brushing as part of Smile Kentucky!

Education



One drop of water opens a world of learning

Maybe it's a peek inside the historic Water Tower, a close-up view of a prehistoric rock or the discovery that water has “sticky” properties. Whatever the experience, Louisville Water’s education program brings science and social studies to life for children and adults.

ADVENTURES IN WATER

During 2011, over 40,000 children at 124 schools took part in Adventures in Water programming. The experience included a classroom experiment on water treatment or the properties of water or a tour of the original and current pumping facilities.

Partnerships with cultural attractions offer teachers a unique opportunity outside the classroom. In 2011, “Water Wonders” debuted on the Spirit of Jefferson. Students cruised along the Ohio River collecting water samples and learning about the river’s history. Targeted at 4th and 5th graders, Water Wonders is a collaborative effort among Louisville Water, MSD, Riverworks Discovery and the Belle of Louisville/Spirit of Jefferson.

Another new partnership with the Kentucky Show!, a multi-media production that highlights the state’s history, reached 22 schools with joint programming.

TOUR THE TOWER

Curious about the operations of an old steam engine or perhaps you’d like to step inside the historic Water Tower?

“Tour the Tower,” a guided walk through Louisville Water’s original and current facilities at Zorn Avenue provides an overview of our 150-year history and a glimpse at how we make drinking water. This program debuted in 2011 following the conclusion of restoration projects on the exterior of the original Pumping Station and Water Tower.

A collection of archival photographs and artifacts took center stage at the National Rural Water Expo in Louisville. Over 10,000 guests from across the United States visited an exhibit at the Kentucky Exposition Center.



Visitors are intrigued with a mud pump from Louisville Water’s history collection



Education programs include “real-world” examples of science and social studies



Over 1,000 people participated in Tour the Tower events



A “floating classroom” provides the perfect backdrop to learn about water

Science comes to life for over 40,000 students with Louisville Water’s education programs

Awards & Leadership

Two preservation organizations recognized Louisville Water's restoration of the original Pumping Station at Zorn Avenue. The Kentucky Heritage Council awarded the project with its Ida Lee Willis Memorial Foundation Preservation Project Award and Preservation Louisville presented the company with an Award of Merit.

Awards & Community Leadership

ACHIEVEMENT AWARDS

American Public Works Association Roadeo, 2nd place - *Raymond White, Phil Henry, Shawn Shaw, Nik Wohlleb and Mike Davis*

American Society of Civil Engineers, Outstanding Civil Engineering Achievement Award for the Riverbank Filtration Project

Better Business Bureau Torch Award for Marketplace Ethics, Medium-size Business

Independent Publisher Book Awards, Southeast Region Silver Medalist for Non-Fiction *Water Works*, by *Kelley Dearing Smith*

Kentucky Historical Society, State Winner for Class D Education - The Society recognized "Water Works" an exhibit created in partnership with the Frazier History Museum

Kentucky Section of the American Society of Civil Engineers, Robert M. Gillim Professional Recognition Award - *Greg Heitzman*

Kentucky/Tennessee American Water Works Association (AWWA), Outstanding Plant Operations Award for >10 million gallons per day

Kentucky/Tennessee AWWA, Safety Award

Lyndon Fire District Civilian Meritorious Service Medal - *Randy Mings*

Republic Bank "We Care" Award, Printing & Manufacturing Category

BOARDS/COMMISSIONS

American Red Cross Louisville Area Chapter Board - *Dave Vogel, Director*

American Society of Civil Engineers, Kentucky Chapter Board of Governors - *Daniel Tegene, President*

American Society of Mechanical Engineers, Louisville Chapter - *Ralph McCord, Vice-chair*

Association of Metropolitan Water Agencies Board - *Greg Heitzman, member*

AWWA National Finance and Accounting Management Controls Committee - *Amber Halloran, Chair*

AWWA Research Foundation Board - *Greg Heitzman, Trustee*

Bellarmine University Alumni Board - *Scott Worthington, Director*

Better Business Bureau Board - *Greg Heitzman, Director*

Boy Scouts of America, Lincoln Heritage Council Board - *Greg Heitzman, Director*

Bridgehaven Board of Directors - *Roger LeMaster, member*

Business Diversity Network - *Johnnie Rice, Vice-Chair*

Center for Women and Families Board - *Barbara Dickens, Director*

Court Appointed Special Advocates for Children (CASA) Board - *Dave Vogel, member*

EDGE Outreach Advisory Board - *Greg Heitzman, member*

Fairdale High School Construction Trade Advisory Board - *Spencer Bruce, member*

Fund for the Arts Board - *Greg Heitzman, Director*

Jefferson County Cooperative Extension Service Council - *Marsha Meyer, President*

Geospatial Information & Technology Association Indiana/Kentucky/Ohio Board - *James Bates, member*

Greater Louisville Inc. Board - *Greg Heitzman, Director*

Institute of Electrical and Electronics Engineers - Louisville Section - *Larry Bryant, Chair*

Interlink Counseling Services Treatment Center Board - *Brian Bobbitt, member*

International Facility Management Association - Greater Louisville Chapter - *James Mok, President*

Ivy Tech Community College Industrial Technology Advisory Cmte. - *Bonnie Gimbel, member*

Jefferson Community & Technical College Engineering Technology Advisory Cmte. - *Bonnie Gimbel, member*

Kentuckiana Construction Users Council - *David Simmons, member*

Kentucky 811 Board - *Harold Hunt, member*

Kentucky Chapter of Hazardous Materials Managers Board - *Ralph McCord, Director*

Kentucky Derby Festival Board - *Jim Brammell, Director*

Kentucky Industry Liaison Group Steering Cmte. - *Kathy Schroeder, member*

Kentucky Labor Relations Board - *Billy Meeks, Director*

Kentuckiana Regional Planning and Development Agency, Water Management Council - *Jim Brammell, Chair*

Kentuckiana Regional Planning and Development Agency, Bullitt Co. Water Management Council - *Jim Grunow, member*

Kentuckiana Regional Planning and Development Agency, Oldham Co. Water Management Council - *Jim Smith, member*

Kentucky/Tennessee Section of AWWA - *Kay Ball, Chair*

Kentucky/Tennessee Section of AWWA, Diversity Committee - *Daniel Tegene, Vice-chair*

Kentucky/Tennessee Section of AWWA, Water Utility Council - *Vince Guenther, Chair*

Kentucky Water / Wastewater Agency Response Network - *Glen Mudd, Vice-chair*

Leadership Kentucky Foundation Executive Board - *Barbara Dickens, member*

Lincoln Foundation Board - *Ed Chestnut, Trustee*

Louisville Better Business Bureau Board - *Greg Heitzman, Director*

Louisville/Jefferson County Information Consortium (LOJIC) Policy Board - *Jim Brammell & Greg Heitzman, members*

Louisville Metro Animal Services Board - *Amber Halloran, Treasurer & Jim Brammell, member*

Louisville Metro Merit Board - *Barbara Dickens, member*

Louisville/Southern Indiana Regional Leadership Coalition Board - *Greg Heitzman, member*

Louisville Sports Commission Board - *Amber Halloran, Director*

Metro United Way Board - *Billy Meeks, Director*

Ohio River Valley Water Sanitation Commission, Water Users Advisory Committee - *Jack Wang*

Salvation Army Louisville Area Command Advisory Board - *Kim Reed, member*

Urban Renewal Commission - Housing Development Board - *Lisa Ogburn, member*

UofL Center for Infrastructure Research Advisory Board - *Jim Brammell & Jim Smith, members*

UofL Center for Labor / Management Advisory Board - *Kathy Schroeder, member*

UofL School of Public Health and Information Sciences Advisory Board - *Jim Brammell, member*

Financial Performance—Operations

Louisville Water experienced a challenging year in 2011. A focused approach allowed us to provide an 8.2% return to our shareholder, maintain our strong credit rating in a sluggish economy and continue our emphasis on a producing a quality product and investing in our infrastructure.

Two events had a marked impact on our financial operations. First, a record 68 inches of rain fell in 2011, the highest yearly total on record since 1871. Water sales are directly tied to the weather and consumption in 2011 was 35.8 billion gallons, 2.3 billion below 2010. Next, two breaks on one of the largest transmission mains in our system pushed expenses higher than anticipated. Claims for damages and clean-up were approximately \$1.2 million.

An average water rate increase of 3.75% on January 1, 2011 helped offset the revenue decline as well as a concentrated effort to reduce expenses. We provided a dividend to our sole shareholder, Louisville Metro of \$18.0 million, free water and fire protection of \$14.6 million and met all bondholder obligations.

Louisville Water continues to offer a good value to our customers. The average monthly water bill continues to be one of the lowest in the region, costing 73-cents a day.



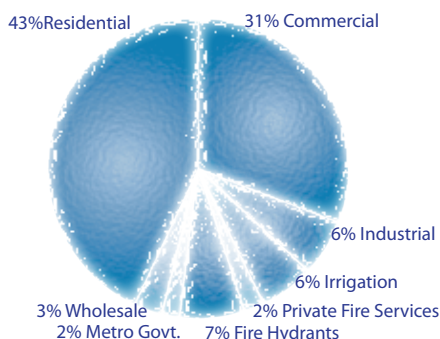
Amber Halloran
Vice President, Treasurer

SALE OF WATER REVENUE ANALYSIS

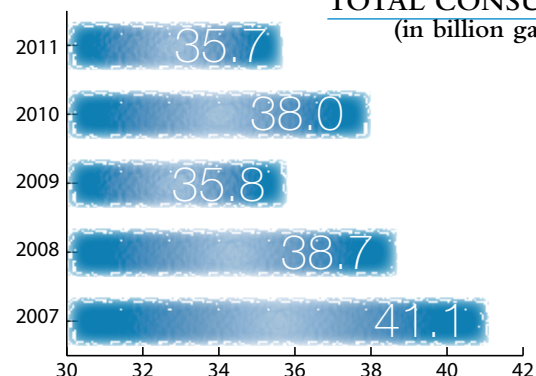
Louisville Water Company

	Number of Customers At December 31		Consumption - YTD (1000) Gallons		Revenue - YTD (in 000's)	
	2011	2010	2011	2010	2011	2010
Residential	240,715	240,505	14,037,669	15,003,116	\$ 59,418	\$ 60,013
Commercial	22,466	22,546	13,226,076	13,753,584	42,857	44,367
Industrial	304	310	3,271,324	3,587,835	8,166	8,532
Irrigation	10,830	10,111	2,024,156	2,395,478	8,728	8,403
Fire Services & Fire Hydrants	4,167	5,020	36,397	32,601	2,393	2,673
Public Fire Hydrants	23,734	21,480	-	-	10,724	9,348
Metro Government	647	649	1,270,488	1,404,163	3,899	3,838
Wholesale	6	6	1,789,790	1,820,246	3,229	3,146
GRAND TOTALS	302,869	300,627	35,655,900	37,997,023	\$139,414	\$140,320

2011 WATER REVENUE



TOTAL CONSUMPTION (in billion gallons)



OPERATIONS

(in millions of gallons)

	2007	2008	2009	2010	2011
Water Delivered to Mains (Net System Delivery)	48,817	47,460	44,476	46,234	44,036
Average Daily Pumpage	136	132	124	128	122
Maximum Daily Pumpage	197	180	157	173	**188
Percent of Water Metered	85%	82%	82%	83%	82%
Average Residential Monthly Water Bill*	\$18.40	\$19.78	\$20.87	\$21.80	\$22.62

*Based upon median usage of 6,000 gallons per month

**July 12, the 48 inch main break at UofL occurred

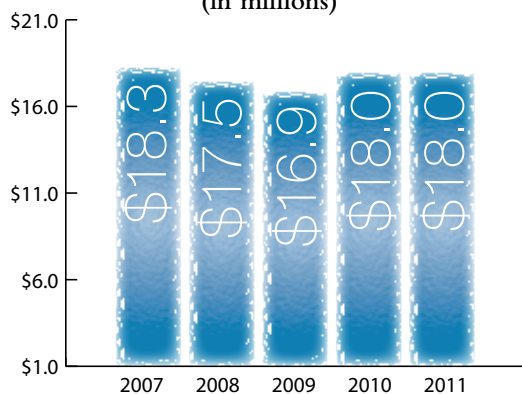
HISTORICAL REVIEW (000'S)

	2007	2008	2009	2010	2011
Operating Revenues*	\$132,399	\$137,128	\$136,224	\$148,366	\$148,193
Total Operating Expenses*	\$89,213	\$93,500	\$94,266	\$99,455	\$105,441
Net Non-Operating Income (Expenses)*	\$(2,559)	\$(4,386)	\$(4,542)	\$(7,403)	\$(7,933)
Net Income before distributions, contributions and extraordinary items	\$40,627	\$39,242	\$37,416	\$41,508	\$34,819

*These categories re-stated to better reflect revenue/expense categories

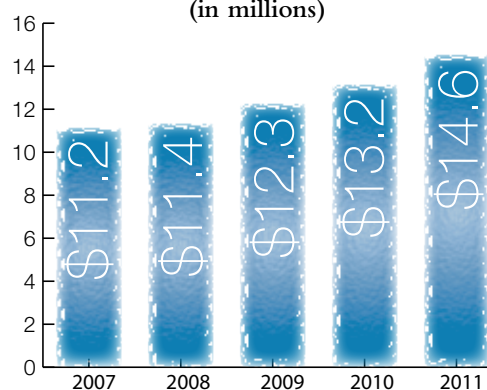
DIVIDENDS DECLARED

(in millions)

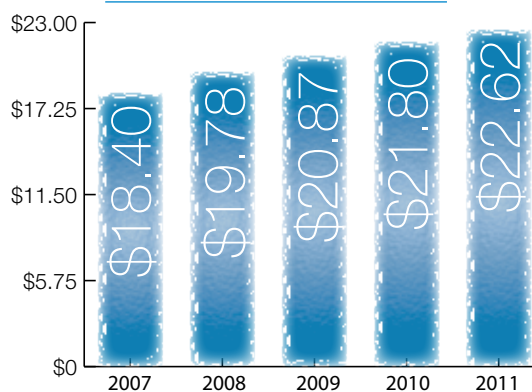


WATER & FIRE SERVICE PROVIDED IN LIEU OF TAXES

(in millions)

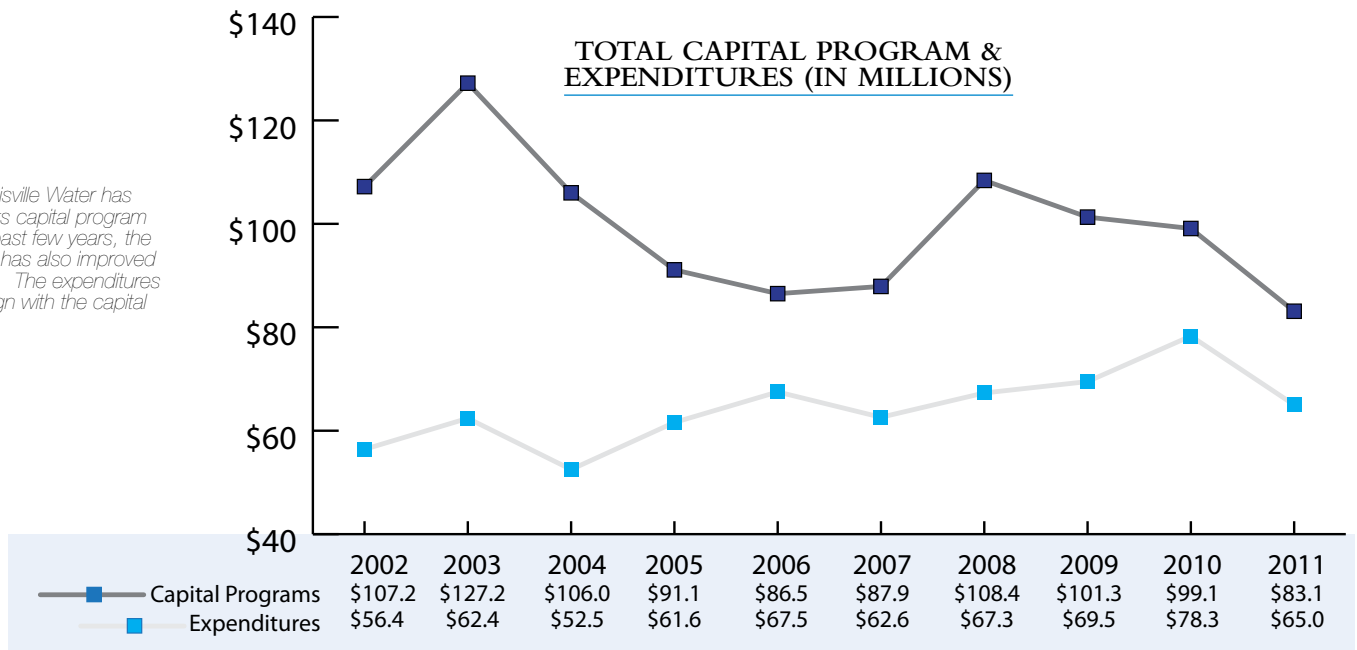


AVERAGE RESIDENTIAL MONTHLY WATER BILL



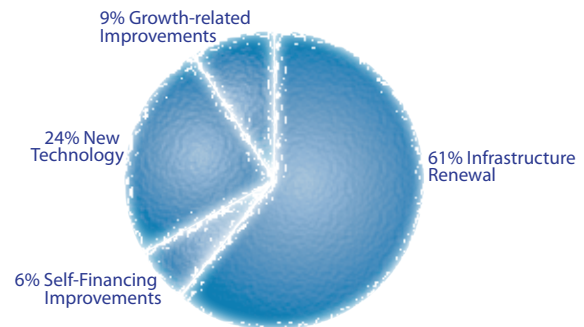
Financial Performance—Capital

While Louisville Water has reduced its capital program over the past few years, the company has also improved execution. The expenditures closely align with the capital allocation.

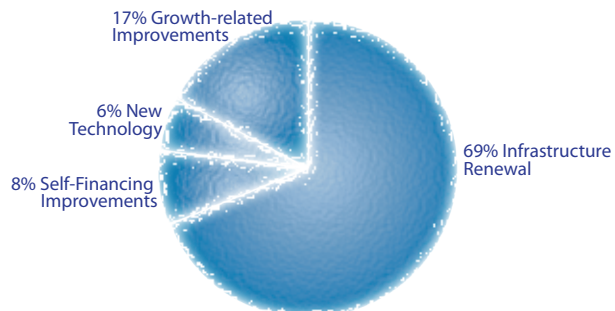


2012 CAPITAL IMPROVEMENT PLAN

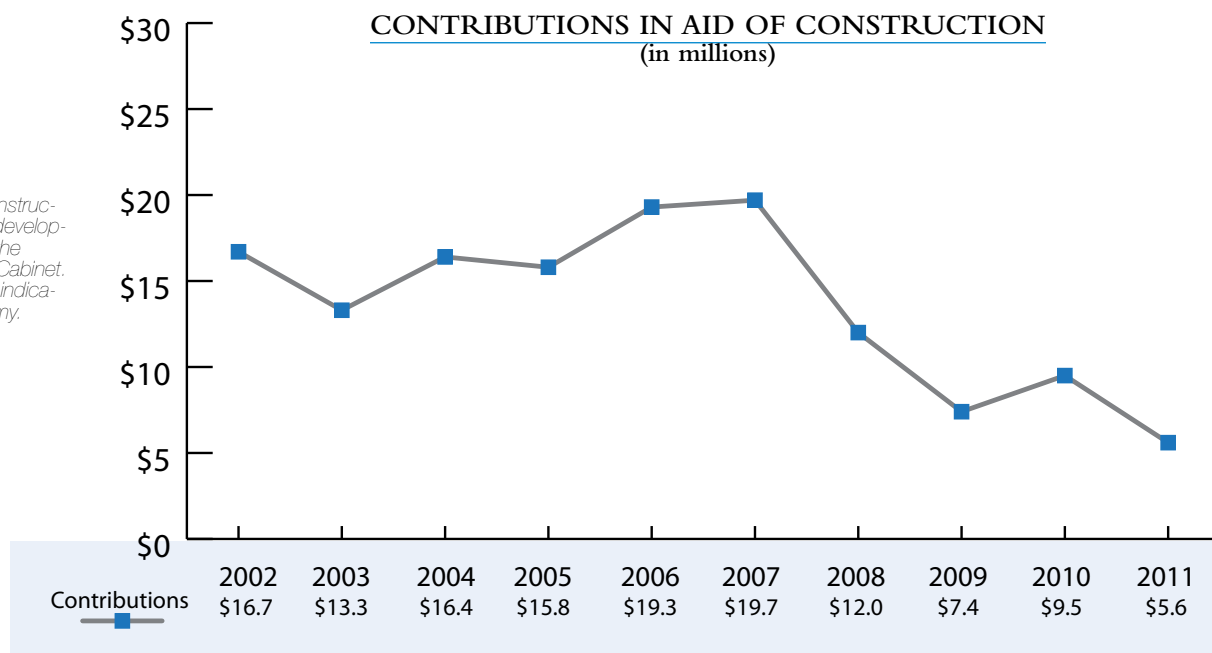
Louisville Water's commitment in maintaining our assets is reflected in the percentage of the capital program dedicated to infrastructure renewal.



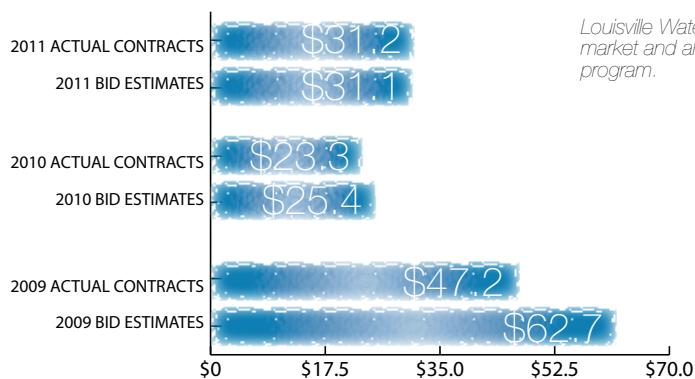
2011 CAPITAL IMPROVEMENT PLAN



Contributions in aid of construction come primarily from developers and entities such as the Kentucky Transportation Cabinet. The continuing decline is indicative of the current economy.



CAPITAL BIDS (in millions) Estimates versus actual contracts



Louisville Water's bid estimates have adjusted to the market and also match the reduction in the capital program.

Dan Schenkenfelder and Phil Henry install a large meter vault.



Innovation and Excellence

WATER QUALITY DISCOVERIES

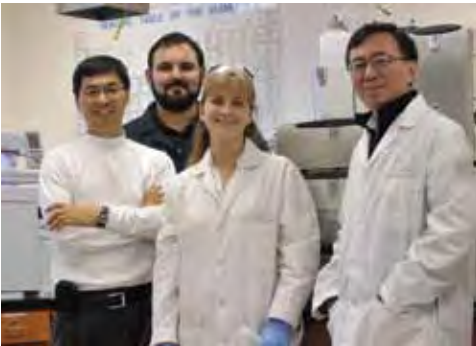
Research by Louisville Water scientists in 2011 is drawing national attention. Our scientists identified a practical approach to reduce Chromium 6 levels in drinking water. Currently, the Environmental Protection Agency (EPA) regulates Total Chromium and Louisville's drinking water levels are 90% below the federal regulation. As the EPA conducts research to determine if it will create a regulation standard for Chromium 6, a component of Total Chromium, our scientists discovered a simple modification in the treatment process can reduce Chromium 6 levels to below 0.1 parts per billion. While each utility's treatment process is unique, our research can help others understand how to effectively manage water quality.

PRESERVING OUR HISTORY

The exhibit Louisville Water created in partnership with the Frazier History Museum to mark 150 years of operations was recognized by the Kentucky Historical Society. The organization awarded "Water Works" with its 2011 Education Award for large-scale projects. The pieces from this exhibit will be on display again in 2013 as part of the "Water Works Museum" at our original pumping station. We will begin a restoration on the interior of the National Historic Landmark in 2012.

EXCELLENT SERVICE

Doing business the right way starts at the top at Louisville Water and filters down to all 420 employees. The Better Business Bureau (BBB) serving Louisville, Southern Indiana and Western Kentucky named Louisville Water its winner for the 2011 Torch Award for Marketplace Ethics in the medium-size business category. This annual recognition recognizes businesses that maintain a solid commitment to conducting business in an ethical fashion. The BBB noted Louisville Water's focus on quality, value and excellent customer service.



Dr. Rengao Song, Chris Bobay, Emily Fritz and Dr. Eric Zhu conducted Louisville Water's research.



The Water Works exhibit engaged children and adults in our history



President and CEO Greg Heitzman and Board of Water Works Chair Marita Willis accept the Torch Award.

Corporate Information

BOARD OF WATER WORKS (as of December 31, 2011)

The Board of Water Works is composed of seven members:

- The Louisville Metro Mayor appoints all members.
- The membership is bi-partisan, with no more than 50 percent from the same political party.
- All new board members serve staggered four-year terms.
- The Louisville Metro Mayor serves as ex officio.
- Each April, the Board appoints officers of the company.



*Greg Fischer
Mayor, Louisville Metro
(ex officio)*



*Marita Willis, Chair,
Board of Water Works
Vice President,
PNC Bank*



*Creighton Mershon, Vice
Chair, Retired General
Counsel AT&T (formerly
Bell South)*



*John Bleidt, Lawyer
Seiler Waterman, LLC*



*David "Doc" Gahafer
Business Agent,
Sprinkler Fitters
Local 669*



*Tandy Patrick
Lawyer, Bingham
Greenebaum Doll LLC*



*Glenn D. Sullivan
President, The Sullivan
University System, Inc.*

EXECUTIVE LEADERSHIP TEAM (left to right)

Billy Meeks – President, AFSCME Local 1683

Dave Vogel – Vice President, Customer Service

Jim Brammell – Vice President, Operations and Chief Engineer

Barbara Dickens – Vice President, General Counsel and Secretary

Greg Heitzman – President/CEO

Amber Halloran – Vice President, Finance – Treasurer

Ed Chestnut – Vice President, Administration



Gerald Martin



Ed Crooks

Gerald Martin concluded eight years of service to the Board of Water Works, serving as Chair from 2009-2011. Martin's keen attention to detail and his expertise in financial analysis helped guide the company in his years of service.

Ed Crooks, a Board of Water Works member since 2008, died unexpectedly in 2011. Crooks represented labor interests and was actively engaged in supporting our community service initiatives. Louisville Water graciously acknowledges Crooks' service.

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